

AT&T and US WEST have been engaged in negotiations over interconnection but have not yet come to an agreement. A PSC representative said she believes that the other large long distance companies are waiting to see the outcome of the AT&T negotiation before they consider entering local competition. In its application for authority, Intermedia Communications, Inc., a reseller, states that it will "market to business customers in the State of Montana. However, if a residential customer requests service we will provide service to them."

### **New York**

Approximately seventy-five companies are certified to provide local service in New York. Only fifty-three of these companies have actually filed tariffs. Of that number, nineteen have stated that they intend to offer both business and residential service, four will offer residential service and only thirteen will only provide business service. RCN is currently reselling services but is planning to build its own facilities.

### **Oklahoma**

There are twenty companies certified to provide local service in Oklahoma, with other applications pending. Fewer companies actually have tariffs filed and are actually offering service. According to a PSC representative, Brooks Fiber seems to be the only CLEC making a dent in local residential service.

### **South Carolina**

Fourteen companies in South Carolina have filed for and received approval from the Public Service Commission to offer local phone service and fifty-nine interconnection agreements have been signed. However, only two companies, ACSI and Intermedia, are actually offering local service and then only to a small number of business customers.

### **Texas**

AT&T, MCI and Sprint are among the more than one hundred fifty telephone companies that have registered in Texas to provide local service. While most companies plan to resell services of the local carriers, some companies are building or intend to build their own networks and develop switch facilities.

A spokeswoman for the state PUC estimated that about five new entrants have begun providing very limited local residential service in Texas. According to the representative, it appears that companies want to offer their long-distance business customers local service. These companies are mainly targeting big cities such as Dallas, Houston and Austin.

## What the Press Is Saying About Local Competition

Press reports reflect the conventional wisdom that the "cherry picking" we see in the market now is a natural stage in the development of competition.

In California, the *San Francisco Chronicle* reports that the widest array of choices of telecommunications services is available to large businesses in areas served by the new competitors' fiber networks.<sup>10</sup> In urban business districts, the large long distance companies are working to capture customers by combining their local and long distance bills and bundling other services. In states such as New York, the market for competitive access has been brisk for several years. Providers there are quickly signing up new local customers.

"There is competition for business customers in large urban markets," said Scott Cleland, a senior analyst at Schwab Washington Research Group an industry research firm. "But the question is: Where is competition in the residential market going to come from?"<sup>11</sup> He predicts that there will be very little residential competition because the major long distance companies are focusing on the business market over the less profitable residential market. Cleland says, "The real disappointment of the Telecom Act is that there is going to be very little residential competition."<sup>12</sup>

Mr. Cleland is at least asking the right questions about the development of the market. Other press reports speculate about when, and to what degree, we will see competition in the local residential service market.

Some analysts say the benefits of competition in local phone service for residential consumers may be slow in coming. On the whole, residential consumers spend less on phone services, and are, therefore, less profitable to serve than business customers. Hongjun Li, a telecommunications analyst at Parks Associates, says that "right now very few consumers have a second choice" in local phone service. It will take at least two years for at least 20% to 30% of consumers to feel they have a second choice." Brett Azuma, director and principal analyst at California-based Dataquest Inc., said that local service is the last area of telecommunications largely untouched by competition. "Local service, more than just straightforward profitability, provides that link to the customer," he said. "It's the first point that the end user connects with the public switch network, and, as such, it's considered strategic."<sup>13</sup>

<sup>10</sup> Ilana DeBare, "Most Business Do Have Real Choices for Local Phone Service," *San Francisco Chronicle*, April 1, 1997.

<sup>11</sup> Mark Landler, "Instead of the Flood . . .," *New York Times*, February 10, 1997, p. D7.

<sup>12</sup> Mark Landler, "Year of Intense Activity Looms . . .," *New York Times*, January 2, 1997.

<sup>13</sup> "GTE Prepares to Invade Local Access Service Turf," *Dallas Business Journal*, October 17, 1997.

This article and others indicate that residential competition must come eventually because residential service is essential for those companies who want to provide a full range of services. Where are the companies that are in the best position to begin offering those packages? The big three long distance companies were supposed to lead the way into this market, but so far they are not making a dent.

Some observers offer these theories.

### **Cherry Picking**

The three largest interexchange carriers, AT&T, MCI and Sprint, are slowly entering local telephone service, but are taking time to determine the most lucrative method for breaking into the market. Most are targeting the business community. According to Michael French, vice president of research with the Insight Group which does market research on the telecom industry, AT&T, MCI and others are "cherry picking," or luring away, BellSouth's most profitable business customers by offering them one-stop shopping for local and long distance service at discounted prices.<sup>14</sup>

When the Act passed, AT&T Chairman Robert Allen boldly predicted that it would snare at least 1/3 of the local market within five to ten years.<sup>15</sup> AT&T made its big splash in January, 1997, when it announced that it would begin offering local phone service on most outbound calls for any business dialing up monthly bills of \$2,500 or more in 35 states. Many analysts found that offer disappointing, expecting perhaps a partnership announcement with GTE.<sup>16</sup>

MCI has taken an aggressive approach to gaining local business customers. So far the company has launched local service for mid-sized to large businesses in twenty-five markets (twenty-one over its own networks), including Atlanta, Chicago, Los Angeles, New York, and Seattle and plans to be in sixty by year end.<sup>17</sup>

Sprint has filed for regulatory approval to provide local service in forty-seven states and the District of Columbia. Sprint has begun to serve large business customers in Orlando, Florida. It has said that it intends to size up local markets carefully. "We're not going to throw dollars at what might be. When we go into a city we'll know which customers we're going after, and that will determine where we build or lease facilities," said Sprint president, D. Wayne Peterson. Sprint is committed to spending billions on new wireless technology.<sup>18</sup>

### **Lack of Focus and Systems Readiness**

<sup>14</sup> Tom Guarisco, "Critics of Expansion Urge More Competition," *The Advocate*, July 13, 1997.

<sup>15</sup> Richard Siklos, "Crybaby Bells . . ." *The Financial Post*, August 2, 1997, p. 7.

<sup>16</sup> Patricia Horn, "AT&T Joins Local-Service Bandwagon," *Sun Sentinel*, January 28, 1997, p. 3D.

<sup>17</sup> Richard Siklos, "Crybaby Bells . . ." *The Financial Post*, August 2, 1997, p. 7.

<sup>18</sup> Andrew Kupfer, "The Telecom Wars," *Fortune*, March 3, 1997.

While the upstarts are luring away customers and putting pressure on prices in the \$70 billion a year long distance business, their drive into the \$100 billion local market is sputtering. It is clear that no long distance company has discovered an easy way to enter the local market. AT&T has the haziest strategy of all, vowing to do whatever it takes to crack the market. A former AT&T insider has said that the lack of local focus springs from indecision. The company has shifted strategies too often, ignoring fundamentals while trying to look slick, and has been agonizingly slow at implementation. Recently it reached out to the bypass companies for help. And the company still doesn't have an integrated billing system so that it could offer customers all services on a single bill. It only recently started billing for its long distance service.<sup>19</sup>

At one point AT&T's strategy for entry into the local market involved a merger with SBC Communications. Since that idea was quashed by FCC Chairman Hundt, AT&T's strategy has been murky. It now plans to begin with total services resale and use the unbundled network platform as quickly as it can.<sup>20</sup>

### **Limit Competition in the Long Distance Market**

Lois Hedg-peth, recently named president of AT&T's 14-state western region, said her goal is to make the long-distance company a force in local telephone markets from California to Minnesota. But she is the first to admit that AT&T hasn't made much of an impact in local markets so far, especially in California. To accomplish her goal, her unspoken task may be to delay Pacific Bell's entry into the long-distance market.<sup>21</sup>

### **Press Reports: A Sampling of What's Happening in the States**

#### **Florida**

Those companies actually offering local service are, not surprisingly, focusing on the business market. MCI offers facilities-based service to businesses in Tampa, Orlando, Ft Lauderdale and Miami.<sup>22</sup> Sprint, Intermedia, MFS, ACSI and AT&T are also offering local service to business customers in limited areas.<sup>23</sup> AT&T says that it plans to go after both residential and business customers but so far only business customers have been targeted. It plans to test local residential service in the Southeast, first in Georgia. If that goes well, they might begin offering service toward the end of the year.<sup>24</sup>

<sup>19</sup> *Ibid.*

<sup>20</sup> Richard Siklos, "Crybaby Bells . . .," *Financial Post*, August 2, 1997.

<sup>21</sup> Staff writer, "Women Executives Take Center Stage as Telecommunications Industry Wars Play Out," *San Francisco Business Times*, October 17, 1997.

<sup>22</sup> MCI Company Press Release, "MCI Seeks Cuts in Local-Competition-Chilling Costs," August 28, 1997.

<sup>23</sup> "You're Going to do What?" *The Tampa Tribune*, August 3, 1997, Business and Finance, pg. 1.

<sup>24</sup> "AT&T Joins Local-Service Bandwagon," *Sun Sentinel*, January 28, 1997, Business, pg. 3D.

Time Warner Cable came within weeks of launching its own residential phone service last October. But after building a phone network throughout central Florida, the venture was stopped by New York executives in reaction to the company's sagging stock price.<sup>25</sup>

### **Georgia**

More than forty telephone companies, most of them small, have signed agreements with BellSouth that would permit them to offer local service. As of last May, neither AT&T, MCI nor Sprint had even announced a target date for offering local service. AT&T recently stated that it would offer only resale of lines and services offered by BellSouth, although AT&T does offer some local service to businesses over its own lines.<sup>26</sup>

### **South Carolina**

Upstart local service companies plan to focus most of their resources in South Carolina on high volume business accounts, ignoring the residential community. When asked what he would tell residential customers, Carl Jackson, director of local exchange services for Intermedia, said, "[I'd] tell them don't wait on [us] for the time being: it's strictly a business focus now."<sup>27</sup> ACSI spokesman James Falvey echoed that sentiment, saying that "the economics aren't there right now for us to provide residential service."<sup>28</sup>

### **Texas**

While competition is starting to surface in Texas, many observers have said that competition will not count until AT&T and MCI really get into the game.<sup>29</sup> This may soon happen as, according to a PSC representative, contractual issues regarding interconnection terms and conditions for local telephone competitors brought for arbitration by AT&T and MCI were resolved at the end of September.

While the residential market is largely still on hold, the business market appears poised to thrive. Business phone competition "is happening very quickly," said Jim Henry, who works for a company that manages office building phone systems.<sup>30</sup> In addition, in Dallas, a handful of new entrants are installing equipment to handle local calls, but almost all of them are targeting lucrative corporate accounts and ignoring residential customers.<sup>31</sup>

<sup>25</sup> "Companies Power Up Competition," *The Orlando Sentinel*, January 6, 1997, Central Florida Business Section, pg. 40.

<sup>26</sup> Michael Kanell, "AT&T Makes Formal Call to Dial into Local Service," *Atlanta Journal*, May 9, 1997, p. 01H.

<sup>27</sup> Andrew Meadows, "Competitors Stay Out of Local Phone Market," *The State*, July 18, 1997, p. B7- B11.

<sup>28</sup> *Ibid.*, at B7.

<sup>29</sup> Jennifer Files, "AT&T Adds Local Service in SE Texas," *The Dallas Morning News*, July 16, 1997, p. 1D.

<sup>30</sup> Jennifer Files, "Telecom Reform Winds Up With a Whimper," *The Dallas Morning News*, February 9, 1997, p. 1H.

<sup>31</sup> *Ibid.*

The local residential service offerings are meager in comparison. AT&T is expanding its efforts to provide residential local phone service throughout Southwestern Bell's markets. "We're still in the very early stages of crawling," said AT&T spokesman Chris Schein. Like most aftereffects of the nation's 18-month-old telecommunications reform bill, AT&T's shift is more subtle than promised, more a sneak attack than a blitzkrieg.<sup>32</sup>

---

<sup>32</sup> Jennifer Files, "AT&T Expands its Reach," *The Dallas Morning News*, August 20, 1997, p. 1D.



# Alliance for Public Technology

901 15th Street, NW • Suite 230 • P.O. Box 27146 • Washington, DC • 20038-7146  
(202) 408-1403 (Voice/TTY) • (202) 408-1134 (Fax) • apt@apt.org (E-mail) • <http://www.apt.org>

EX PARTE OR LATE FILING

## Board of Directors

Dr. Barbara O'Connor, *Chairperson*  
Institute for the Study of Politics & Media  
California State University, Sacramento\*

Gerald E. Depo, *President*  
Town of Bloomsburg\*

Richard José Bela  
Hispanic Association on Corporate  
Responsibility\*

Dr. Jennings Bryant  
Institute for Communication Research  
University of Alabama\*

John A. Butler  
National Urban League\*

Caroline Carpenter  
W. K. Kellogg Foundation\*

Roger Cazares  
The MAAC Project\*

Henry Geller  
The Markle Foundation\*

Allen Hammond  
University of Santa Clara School of Law\*

Bong Hwan Kim  
Korean Youth and Community Center\*

Mark Lloyd  
Civil Rights Project\*

Paul Schroeder  
American Foundation for the Blind\*

Esther K. Shapiro\*  
Detroit Consumer Affairs Department\*

Arthur Sheekey  
Public Service Telecommunications  
Corporation\*

Vincent C. Thomas  
New York State Assembly\*

Donald Vial  
California Foundation on the  
Environment & Economy\*

Dr. Susan G. Hadden  
LBJ School of Public Affairs  
University of Texas, Austin\*  
1945-1995

\*Organization is for identification  
purposes only.

December 9, 1997

William A. Caton  
Secretary

Federal Communications Commission  
1919 M Street, NW  
Washington, DC 20554

Ex-parte CC Docket No. 97-208

Dear Secretary Caton:

On Monday, December 8, 1997, Maureen Lewis and Sylvia Rosenthal, representing the Alliance for Public Technology, Albert Clark, representing the United Homeowners Association, Tomasa Gonzalez, representing the National Hispanic Council on Aging, and Angela Ledford, representing Keep America Connected, met with Commissioner Tristani and Paul Gallant of her staff to discuss BellSouth's application to offer long distance service in the state of South Carolina.

Attendees discussed the consumer benefits of competition in the long distance market, including lower rates, new incentives for investment in advanced infrastructure, and incentives for IXC's and CLECs to serve the local residential market.

The enclosed materials were left with Commissioner Tristani and her staff.

Thank you.

Sincerely,

Maureen Lewis  
Counsel

enclosures

RECEIVED

DEC 10 1997

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY